DIRECT TESTIMONY OF
GERHARD HAIMBERGER
ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2009-2-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT POSITION.

A. Gerhard Haimberger, 1426 Main Street, Columbia, South Carolina. I am employed by SCANA Services, Inc. as General Manager, Fuel Procurement and Asset Management, providing fuel and transportation purchasing on behalf of South Carolina Electric & Gas Company ("SCE&G" or the "Company").

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I earned a Bachelor of Science Degree in Mining Engineering from the Colorado School of Mines in Golden, Colorado in 1973, and am a registered professional engineer. I have been involved in fuel production or procurement for thirty-five years. In July 2003, I was employed by SCANA Services, Inc. in my current position and report directly to the Senior Vice-President, Fuel Procurement and Asset Management, SCANA Services, Inc.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe the procurement and delivery activities for fossil fuel (coal and oil) used in electric generation for SCE&G and GENCO's Williams Station for the period February 1, 2008 through December 31, 2008 (the "Review Period"). I also discuss the fundamental changes and their magnitude that have occurred in the domestic and global coal markets since the last annual fuel adjustment hearing and how these changes affected coal procurement during the Review Period.

Q. PLEASE DESCRIBE SOUTH CAROLINA GENERATING COMPANY ("GENCO") AND ITS RELATIONSHIP TO SCE&G.

A. GENCO was incorporated October 1, 1984 and owns the Williams Electric Generating Station. GENCO sells to SCE&G the entire capacity and output from the Williams Station under a Unit Power Sales Agreement approved by the Federal Energy Regulatory Commission. Hereafter when I refer to SCE&G's fossil steam plants, I include GENCO.

Q. PLEASE SUMMARIZE SCE&G'S FUEL PROCUREMENT NEEDS AND PURCHASING PRACTICES.

A. The Fuel Procurement Department (coal and oil) ("Fuel Procurement") purchases all necessary coal, fuel oil and associated transportation for SCE&G's fossil plants focusing on reliability of supply, conformity with operational and environmental requirements, and reasonable prices. SCE&G has a significant need for coal in any given year. For example, in 2008, 6,401,275 tons of coal were consumed by SCE&G in the production of electricity for its customers.

We also purchase or trade Environmental Protection Agency ("EPA") sulfur-dioxide ("SO2") and nitrogen-oxide ("NOx") emission allowances as needed by SCE&G.

Q. HOW DOES THE COMPANY SECURE THE NECESSARY QUANTITIES OF COAL AND OIL AT COMPETITIVE PRICES?

A. SCE&G maintains an active list of qualified suppliers of coal and fuel oil used to power its plants. Typically, as contracts expire or needs are identified, solicitations are tendered for competitive sealed bids.

Q. HOW DOES SCE&G APPROACH THE MARKET PLACE FOR COAL AND FUEL OIL?

A. Coal is procured with long-term (more than one year) and spot purchase (up to one year) agreements to achieve a balance of reliable supplies, while maintaining flexibility to react to market changes or short-term system needs. We seek to have long-term purchases represent approximately 75 to 80 percent of projected system demand. Spot purchases provide the mechanism to manage inventories and react to short-term changes in the marketplace. By utilizing spot purchases, SCE&G has been successful in managing its inventory.

Fuel oil contracts are requirements contracts that are competitively solicited every two years.

Q. HOW DOES SCE&G INSURE THAT THE RIGHT QUANTITY OF FUEL SUPPLIES IS AVAILABLE TO MEET GENERATION DEMANDS?

A. SCE&G uses several methods to bring the fuel supply and demand factors together. Fuel usage levels are calculated and forecasted for each of the generating plants. Coal and fuel oil inventories are then validated and contract quantities are summed and compared against system usage to determine needs going forward. With this information, Fuel Procurement looks at the coal requirements and determines whether contract options, spot purchases or additional long term agreements are appropriate. Throughout the years, SCE&G has been successful in leveraging long-term and short-term coal purchases to achieve reasonable purchase prices while insuring the reliability of coal supplies necessary to support system needs.

Fuel oil inventories are purchased to insure adequate back up to natural gas for SCE&G's intermediate and peaking generators. Contracts are awarded on a biannual basis using competitive bids. Typically, fuel storage tanks are filled going into peak usage periods and reduced to lower levels throughout the months with milder weather to protect fuel quality.

Q. HOW DOES THE COMPANY MANAGE COAL INVENTORIES TO INSURE RELIABILITY AND AVAILABILITY?

A. The Company attempts to maintain approximately a 925,000 ton inventory of coal based on the average of each of twelve months' ending inventories to support anticipated consumption. This methodology allows for an inventory of more than 925,000 tons at the beginning of high demand periods and less than 925,000 tons entering the milder months. This inventory level aids in protecting SCE&G against availability, production and delivery problems that may arise from time to time. It also affords the resources to meet our supply needs when short-term market prices are unfavorable. It is always important to balance short-term decisions against long-term requirements and future operating conditions.

Q. HOW DOES THE COMPANY DETERMINE THE "REASONABLE PRICE" FOR FUEL PURCHASES?

A. Fuel Procurement works diligently to achieve an optimization between adequate supplies of acceptable quality at reasonable purchase prices with the ultimate value of the delivered fuel (coal or oil) determined by the actual measured heat rate efficiency in the operation of our generating plants. Markets are volatile and fluctuate due to such things as seasonality, political turmoil, national weather trends and supply/demand imbalances. SCE&G strives to use a variety of pricing mechanisms among coal contracts to mitigate or normalize the effects on prices created by changes in market conditions and indexes by staying informed about market trends and conditions and continuously balancing adequate inventories against long-term contract supplies, spot market purchases and contract options. In addition to strategically managing our current assets, SCE&G stays current with developing trends and fundamental changes taking place in the industry and receives key marketing information. This information flow is integral in our ongoing analysis of current or prospective coal costs and market comparability.

Q. PLEASE BRIEFLY DISCUSS WHEN THE DRAMATIC CHANGES OF COAL PRICES APPEARED IN THE MARKET.

A. In Docket No. 2008-302-E, I informed the Commission that coal prices had become extremely volatile beginning November 2007. At the time, I advised the Commission that Free on Board ("f.o.b.") mine prices had risen from about $40 per ton to over $150 per ton in July of 2008. The f.o.b. mine price is the price of coal loaded "free on board" into rail cars at the mine before transportation costs are included. Some metallurgical coal similar to SCE&G's quality requirements was sold at U.S. export ports at approximately $300 per ton (includes freight to the port of approximately $25 per ton). These price increases and volatility within the market were driven by new global demand, mining and transportation problems in foreign coal producing countries, coal mining constraints in the U.S. and an unprecedented increase in U.S. coal exports. I delineated these fundamental changes to the Commission in Docket No. 2008-302-E. An Energy Information Administration graph depicting the huge spike in prices is appended as Exhibit No. ___ (GH-1).

Q. WHAT RESULTS IN COAL PROCUREMENT OCCURRED DUE TO THE CHANGES DESCRIBED ABOVE?

A. As U.S. exports rose to unprecedented high volumes, many of our long-term coal suppliers expressed difficulty in meeting demand and rail resources proved inadequate to meet the increased demand created by the huge increase in export moves. In addition to the unprecedented increase of demand for export of both metallurgical (coal used primarily in steel production) and thermal (coal used primarily in steam/electric generation) coals, the Central Appalachian coal fields were plagued by deteriorating geologic conditions, the inability to secure mining permits in a timely fashion, increased mining rules and regulations, and a "tight" labor market. Additionally, suppliers were under tremendous financial pressure to favor higher priced markets.

During this period, certain of SCE&G's suppliers gave notice that they would be unable to perform under the terms of their contracts for coal supply with SCE&G and asserted that any non-performance was excused due to circumstances of "force majeure." These non-performance events resulted in significant interruption of SCE&G's expected deliveries of coal supplies during the Review Period. In order to maintain reliable coal inventory, SCE&G was required to purchase significant amounts of spot coal during the elevated market. It is SCE&G's belief that, if the suppliers had fulfilled their obligations pursuant to the contracts, many of these high-priced spot purchases could have been avoided.

Q. HAS THE COMPANY TAKEN STEPS TO INVESTIGATE THESE CLAIMS AND TO ENFORCE ITS CONTRACTS?

A. Yes, it has. As an example, some suppliers asserted, among other causes, that geologic conditions in certain Central Appalachian coal mines prevented performance. Where practicable, SCE&G sent representatives to the suppliers to inspect the individual coal mines. In one case, SCE&G's representatives determined that the mine operated by a particular supplier was affected by a significant sandstone intrusion which delayed the mining of coal for several months and in another instance determined that a major geologic fault at a seam was partially, but not entirely, the cause of the failure to perform.

Representatives of SCE&G also visited most of the other suppliers who failed to make expected deliveries of coal during the Review Period. All of these suppliers have also claimed that their failure to perform is excused or justified under the "force majeure" provisions of their respective contracts. Legal action either has been initiated or will be initiated where SCE&G determines that a claim of "force majeure" is unjustified or otherwise without merit. Any recoveries made will be accounted for as a credit to fuel cost in the period in which any such recovery may be actually received.

Q. SUMMARIZE THE QUANTITY, QUALITY, AND TERM OF THE COMPANY'S COAL PURCHASES.

A. During the Review Period, the Company purchased and took delivery of approximately 3.1 million tons of coal under long-term agreements and 2.5 million tons of spot purchases. Long-term agreements represented approximately 55% of the requirement for the Company's five coal-fired stations, and GENCO's Williams Station.

For the January 2009 through December 2009 period, the Company projects to have long-term contracts with 12 suppliers totaling 5.4 million tons of coal representing approximately 83% of the total receipts depending on final contract negotiations. The quality ranges are from 12,200 to 13,000 BTU per pound and sulfur contents from 0.98% to 1.95%. Most of these contracts are for a period of three years with some options to renew. The amount of coal under contract will vary from year to year. In some of our coal contracts, we have been successful in negotiating fixed pricing for the term of the contract. Other coal contracts contain predetermined price adjustments.

Q. DID SCE&G RENOGOTIATE ANY OF ITS CONTRACTS DURING THE PERIOD UNDER REVIEW?

A. Yes. SCE&G renegotiated several coal contracts during the review period. As I explained earlier, the Company maintains contracts with several different suppliers and the majority of these contracts are for a period of three years. In order to insure the availability of consistent and reliable coal supplies while maintaining its ability to effectively negotiate reasonable prices, SCE&G staggers the contracts so that approximately one-third of the contracts expire each year.

At the beginning of 2008, SCE&G became aware that market prices for coal were increasing significantly. Because it could not determine when or if prices may moderate, SCE&G believed it was prudent to renegotiate contracts with two of its best suppliers earlier in the year which resulted in long-term coal contracts at beneficial prices. After the summer spike in prices had subsided, the

Company negotiated additional long-term contracts in the Fall of 2008 at then competitive market prices for coal in the long-term market to insure reliable sources of coal supply to meet our customers' needs for electric generation.

Q. WHAT HAS OCCURRED REGARDING COAL PRICES AND TRANSPORTATION RATES IN THE PAST YEAR?

A. The specific coal prices and transportation rates set forth in the Company's contracts are confidential. However, coal market prices have declined substantially since year end 2008 with current spot prices in the $60 per ton range f.o.b. mine. Currently, SCE&G has no spot needs. A new contract for rail transportation was negotiated to begin January 1, 2009 with a substantial freight rate increase over the expiring ten-year contract (as reported in Docket No. 2008-2-E). SCE&G negotiated with CSX Railroad over a period of several months and enlisted the aid of a nationally known rail consultant. We also carefully informed ourselves about current and projected market conditions and believe the new contract to be "market" or somewhat better for new contracts servicing the Southeast.

SCE&G continues to expand its coal specifications by purchasing coal of lower quality where practicable and acceptable to a coal-burning plant. SCE&G also diversifies its coal supply and transportation with some import coal purchases thereby providing a measure of protection against possible domestic supply and transportation constraints or disruptions as occurred in 2004 and 2008.

Q. WHAT WERE SCE&G'S DELIVERED COAL COSTS FOR THE REVIEW PERIOD?

A. Exhibit No. ___ (GH-2) entitled "Coal Purchased For Steam Plants," displays the average cost in dollars per MMBTU (million British Thermal Units) by month for coal purchased during the Review Period.

Q. WHAT HAS BEEN THE RECENT PRICING TREND IN THE NO. 2 FUEL OIL INDUSTRY?

A. As the Commission is well aware, oil prices and volatility have been regularly reported in the public press. Delivered fuel oil prices during the Review Period remained volatile reflecting the actions of OPEC, increasing domestic and global demand led by economic growth in China and India, and political instability in Nigeria, Venezuela and the Middle East. During the past year, crude oil prices spiked at over $140 per barrel in the summer, but steadily declined in the later summer, fall and winter to current levels in the $40 range. It is impossible to predict with any accuracy when prices will begin to rise again, but it is widely viewed as likely that prices will begin to rise as the world's economies begin to recover from the current recession.

Exhibit No. _ (GH-3) shows the average system delivered No. 2 fuel oil prices in $/MMBTU for the Review Period.

Q. ARE THERE ANY OTHER THINGS THE COMPANY HAS DONE TO MITIGATE FUEL-RELATED EXPENSES THAT WILL IMPACT FUEL COSTS?

A. The Clean Air Act Amendment of 1990 called for electric utilities to reduce SO2 emissions. An SO2 Emission Allowance Trading Market was established by the EPA to assist utilities in managing the costs of complying with these new regulations. The Company has purchased SO2 allowances as part of our overall strategy to compensate for our SO2 emissions. SO2 emission allowance prices have decreased during the Review Period due to active and announced SO2 scrubber projects and are currently approximately $120 per allowance (one ton SO2). Price volatility often reflects the actions of hedge funds and other financial organizations participating in the SO2 markets for speculative purposes which tend to increase allowance prices. The Fuel Procurement Department also deals with NOx emission allowances. Annual NOx allowance prices are currently at $3200 per ton.

Q. HAS SCE&G MADE REASONABLE EFFORTS TO MINIMIZE ITS FUEL COSTS?

A. Yes, the Fuel Procurement Department has made reasonable efforts to obtain reliable, high quality supplies of fuel and transportation at the lowest possible cost to SCE&G's customers. Therefore, on behalf of SCE&G, I respectfully request that the Commission find that the Company's fuel purchasing practices are reasonable and prudent.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Exhibit No.___ (GH-1)

Historical Average Weekly Coal Commodity Spot Prices
(Dollars per Short Ton)
Business Week Ended January 30, 2009

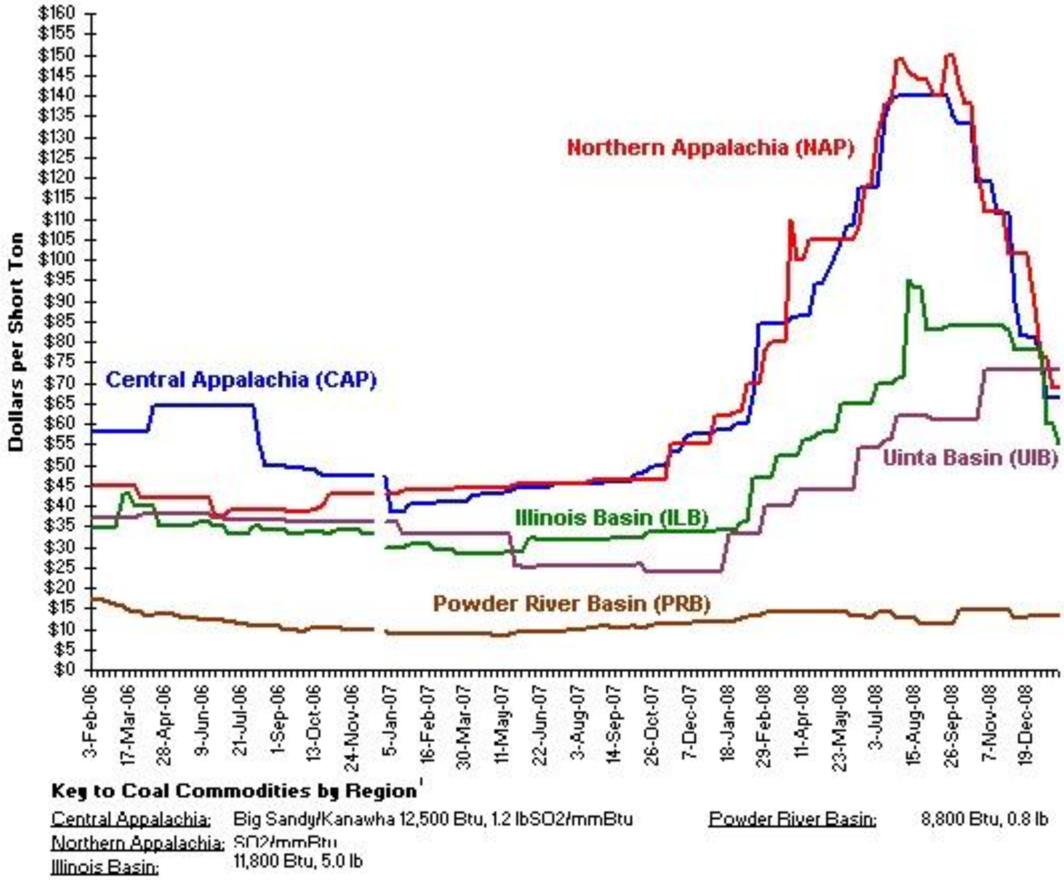

Exhibit No. ___ (GH-2)

Coal Purchased for Steam Plants

$/MMBTU

Feb. 08	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
$2.75	$2.68	$2.67	$2.65	$3.07	$4.19	$4.03	$3.82	$3.98	$4.30	$3.99	

Exhibit No. ___ (GH-3)

No. 2 Fuel Oil Purchased for Steam Plants

$/MMBTU

Feb. 08	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
$21.00	$24.84	$25.57	$28.36	$28.45	$35.88	$25.27	$24.06	$18.83	$16.35	$11.33	